

COMPLIANCE AUDIT

Westmoreland Homesteads Volunteer Fire Department Relief Association of Norvelt, PA Westmoreland County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

October 2023



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. James Hontz, President
Westmoreland Homesteads Volunteer
Fire Department Relief Association
of Norvelt, PA
Westmoreland County

We have conducted a compliance audit of the Westmoreland Homesteads Volunteer Fire Department Relief Association of Norvelt, PA for the period January 1, 2019, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

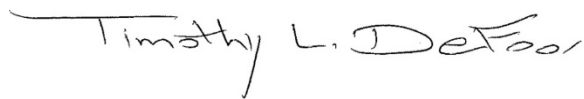
Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2022, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Untimely Deposit Of State Aid

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption
Number

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
October 3, 2023

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law³ (commonly referred to as Act 205) are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

The VFRA Act governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief association operates in accordance with applicable state laws, contracts, bylaws, and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Mount Pleasant Township	Westmoreland	\$11,149	\$11,269*	\$10,194*	\$12,033*

* The 2020, 2021, and 2022 state aid allocations received from Mount Pleasant Township were not timely deposited by the relief association, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash as of December 31, 2022, was \$353,043, as illustrated below:

Cash \$ 353,043

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$46,952, as noted below. The accuracy of these expenditures was evaluated as part of the Department's audit to conclude on the relief association's compliance with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.⁴ **The scope of the Department's audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:

Insurance premiums	\$ 6,026
Death benefits	<u>32,000</u>
Total Benefit Services	<u>\$ 38,026</u>

Fire Services:

Equipment maintenance	\$ 1,500
Training expenses	<u>3,632</u>
Total Fire Services	<u>\$ 5,132</u>

Administrative Services:

Bond premiums	\$ 2,291
Other administrative expenses	<u>1,503</u>
Total Administrative Services	<u>\$ 3,794</u>

Total Expenditures	<u><u>\$ 46,952</u></u>
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The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Westmoreland Homesteads Volunteer Fire Department of Norvelt, Pennsylvania

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

WESTMORELAND HOMESTEADS VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION OF NORVELT, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2020, 2021, and 2022 state aid allocations it received from Mount Pleasant Township, in the amounts of \$11,269, \$10,194, and \$12,033, respectively, until May 10, 2023, February 23, 2022, and January 23, 2023, respectively. Per relief association officials, the relief association attempted to deposit the 2020 state aid on December 8, 2020, but the bank deposited the state aid into an account that did not belong to the relief association. The foreign fire insurance tax allocations were distributed to the municipal treasurers on September 22, 2020, September 21, 2021, and September 21, 2022, who forwarded the state aid to the relief association on October 19, 2020, October 18, 2021, and October 17, 2022, respectively, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocations, the relief association did not ensure the funds were deposited timely into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocations, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials did not give reasons for the untimely deposits of state aid allocations for the years 2021 and 2022, but according to relief officials, the bank initially deposited the 2020 state aid into an account that did not belong to the relief association.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely deposits of receipts increase the risk that funds could be lost or misappropriated.

WESTMORELAND HOMESTEADS VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION OF NORVELT, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials ensure accounting procedures such as the reconciliation of bank accounts/statements for all deposits is performed and the adoption of necessary internal control procedures to ensure the timely deposit of all future income received. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

Management’s Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association’s authorized disbursing officer. The relief association’s Surety (Fidelity) bond coverage amount was \$250,000; however, as of December 31, 2022, the relief association’s cash assets totaled \$353,043.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the relief association’s cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer was in compliance with the VFRA Act provisions and did not provide a reason why this occurred.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association’s cash assets were not adequately safeguarded.

WESTMORELAND HOMESTEADS VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION OF NORVELT, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association’s authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer to an amount greater than the expected maximum balance of the relief association’s cash assets, or by decreasing the relief association’s cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association’s cash balance to ensure that unexpected events affecting the relief association’s current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

Management’s Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the relief association increased their bond coverage to \$375,000 on May 9, 2023.

Auditor’s Conclusion: We reviewed documentation verifying that the bond coverage was increased to \$375,000. Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as a verbal observation in the prior audits, the relief association failed to obtain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired, and is no longer valid.

Criteria: Section 7415(e) of the VFRA Act states:

A volunteer firefighters’ relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association officials indicated that they were unaware of the necessity to obtain its own sales tax exemption number from the Department of Revenue and did not provide a reason why this occurred despite the relief association being notified of this condition during our prior audits.

WESTMORELAND HOMESTEADS VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION OF NORVELT, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: As a result of the relief association's continued failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

WESTMORELAND HOMESTEADS VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION OF NORVELT, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Westmoreland Homesteads Volunteer Fire Department Relief Association of Norvelt, PA
Governing Body:

Mr. James Hontz
President

Mr. Matthew Crise
Vice President

Mr. Seth Delaney
Secretary

Mr. David Grec
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Caprice M. Mills
Secretary
Mount Pleasant Township

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.